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KEDI ECONOMIC SURVEY

November 1, 1987

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SOURCES:

U.S. Department of Commerce first estimate of 1987:3,
National Income and Product data, October 20, 1987.

Board of Governors of the Federal Reserve System release
of the Index of Industrial Production, October 1987.

The latest available data on prices, employment,
industrial and financial developments.

O.OO INTRODUCTION

O.O1 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

The October stock market debacle appears to have little effect on the U. S. economy. 1988 and the following years look good.

Prices

The low exchange rate for the U.S. dollar on international markets has had minimal effect on prices so far.

Employment & Labor

Employment increased by 121,000 in September and October data points to a hefty gain of more than half a million new jobs.
d

Housing

Housing will continue to decline for the rest of this year and the first months of 1988 due to high mortgages and over supply.

Automobiles

Production and sales of cars will go down for the next 4-6 months because demand has already been largely satisfied.

Budgets

It is anticipated that the agreement on the Federal deficit cut for FY 1988 will be achieved and approved by Congress.

Income

Corporate after-tax earnings in 1987:3 have increased by 34% when compared to 1987:2, according to the Wall Street Journal.

Money & Credit

The increment in M1 is expected to be \$30 billion above 1987 in 1988. That points to a relaxed Federal Reserve policy.

Interest Rates, Yields & Securities Prices

Forecast data do not call for any repeats of the October crash of the stock market.

O.02 ASSUMPTIONS

	Last Update
1. In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2. A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will last throughout 1988. More tightening is not expected earlier than in 1989.	July 1987
3. In 1988 and 1989 good crops in all main producing countries are anticipated.	September 1987
4. Foreign trade with China will expand in 1988 and following years.	May 1987
5. Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6. No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

- * Table O.00 on page 3 shows forecast data of selected indicators of the October 1987 KEDI forecast.
 - * In 1987 moderate growth is expected. It will accelerate in 1988.
 - * The upward trend will continue throughout 1990-1991.
 - * Forecast data for 1988-1991 do not point to recession or major downturn.
 - * In 1987 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.
 - * Federal budget deficits will keep declining in 1988 and the following fiscal years.
 - * The 1987 export-import gap will start closing to a more acceptable level.
-

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national product, p. 5	bil. 82\$	3713.3	4205.5	4306.4	4418.4
Index of indust. prod., p. 5	% change	2.9	3.0	2.4	2.6
Capacity utiliz., p. 5	1977=100	125.1	142.0	146.7	151.7
Unemployment rate, p. 5	% change	1.0	3.1	3.3	3.4
Private housing starts, p. 5	%	79.6	81.3	80.5	79.8
Car sales, p. 5	% change	-1.0	0.0	-1.0	-.9
Implicit GNP price def., p. 11	%	7.0	5.9	6.5	6.4
Consumer Price Index, p. 11	% change	-3.1	1.0	-1.1	-.9
Prod. Price Index (fin. goods), p. 11	mil. units	1.8	1.8	1.8	1.8
Federal Deficit p. 21	% change	-4.2	3.3	-2.0	3.5
Personal Income p. 23	mil. units	11.5	10.8	10.9	11.3
Prime Rate p. 27	% change	3.2	2.9	1.0	4.0
Mortgage Rate p. 27	1982=100	114.5	134.0	138.8	143.9
Currency+demand deposits, p. 25	% change	2.6	3.6	3.6	3.7
Commercial+ind. loans, p. 25	1967=100	328.4	383.1	395.0	409.2
Raw steel production	% change	1.9	3.8	3.1	3.6
Electric power production	1967=100	289.6	345.1	360.7	374.4
Bituminous coal production	% change	-1.6	4.2	4.5	3.8
Crude oil output	bil. \$	-220.0	-97.0	-78.4	-63.0
Retail sales p. 7	% change	8.2	-11.2	-19.1	-19.7
	bil. \$	3534.3	4752.0	5070.4	5450.7
	% change	5.8	6.9	6.7	7.5
	%	8.3	8.3	8.9	9.5
	% change	-11.6	-4.8	7.2	7.8
	%	9.8	10.2	9.9	10.1
	% change	-11.7	5.8	-2.7	1.8
	bil. \$	673.2	888.9	946.7	1011.0
	% change	13.4	7.5	6.5	6.8
	bil. \$	517.6	606.3	552.1	619.8
	% change	5.3	3.2	2.9	2.1
	mil. sh. tons	87.4	91.2	90.8	91.3
	% change	-.1	.4	.9	.4
	mil. kw-hr	2614	3355.8	3342.8	3499.6
	% change	6.0	3.8	3.7	4.7
	mil. sh. tons	872	936	973.3	984.1
	% change	-.1	1.1	1.3	1.5
	avg. daily bbl.	3261	2361	2371.7	2426.2
	% change	.8	2.1	2.2	2.3
	bil. \$	1454.4	1864.7	1982.2	2120.9
	% change	6.0	7.0	6.3	7.0

Numbers in "% change" rows show percent changes over the previous year.

1987
FORECAST
DATA

Percent Change
from
October 1987
Forecast

+ 1.22%	Private Housing Starts
+ .78%	Unemp- plov- ment
+ .34%	GNP
+ .24%	Autos
+ .15%	Index Indus. Prod.
+ .12%	Capac. Util.

1.10 REAL GROWTH, CONSUMER SPENDING,
AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

THE OCTOBER STOCK MARKET DEBACLE
APPEARS TO HAVE LITTLE EFFECT
ON THE U.S. ECONOMY. 1988 AND
THE FOLLOWING YEARS REMAIN
OPTIMISTIC.

In 1988 look for a good year with
healthy growth, low unemployment
and low rate of inflation. There
will be some slowdown in 1989, but
NO RECESSION.

The facts remain:

* The decline of consumers' net
worth due to the October stock
market plunge, around \$20 billion,
is so small that it cannot
significantly affect purchasing
power.

* More important than consumers'
net worth is their INCOME--and
there has been no decline in income.
On the contrary, forecast data
show healthy, steady growth in
income.

Flip the coin and we see positive
fallout from the October experience:

* Improved conditions on the Federal
and corporate bond markets.

* Foreign financial authorities
have learned that the policy of
lowering interest rates appears to
be beneficial now and in the months
to come.

* A lesson to the Federal Reserve
that increases in interest rates
due to self-minded fear of inflation
may have adverse effects.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem- ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	\$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.805	11.5
1987:1*	3772.2	126.9	6.67	80.1	1.822	9.6
2*	3795.3	128.2	6.23	80.2	1.612	9.5
3	3831.2	130.9	5.92	81.0	1.610	10.1
4	3862.5	131.9	5.94	81.2	1.582	9.7
YEAR	3815.3	129.5	6.19	79.6	1.657	9.7
% change from '86	2.7	3.5	-12.1	0.0	-8.2	-15.4
1988:1	3883.0	132.6	5.90	81.1	1.610	9.6
2	3891.8	134.0	5.87	81.2	1.725	10.0
3	3928.3	135.8	5.80	81.4	1.790	11.1
4	4067.6	136.0	5.73	81.9	1.758	10.6
YEAR	3942.7	134.6	5.83	81.4	1.721	10.3
% change from '87	3.3	4.0	-5.9	2.3	3.9	6.2
1989:1	4071.1	136.9	5.74	81.6	1.631	10.0
2	4075.2	137.5	5.86	81.5	1.766	10.4
3	4084.3	138.0	5.88	81.0	1.856	10.9
4	4101.3	138.7	5.92	81.1	1.792	10.5
YEAR	4083.0	137.8	5.85	81.3	1.761	10.4
% change from '88	3.6	2.4	.4	-.1	2.4	1.2

*Historical data.

**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change
from
October 1987
Forecast

+ 2.59%	Pers. Con. Exp. Durables
+ .85%	Pers. Con. Exp. Nondurable
+ .26%	Retail Sales Nondurable
+ .01%	Retail Sales Total
- .40%	Retail Sales Nondurable
- .88%	Pers. Con. Exp. Services

RETAIL SALES AND CONSUMER SPENDING HAVE NOT BEEN NEGATIVELY EFFECTED BY THE OCTOBER STOCK MARKET CRASH.

The forecast for consumer disposable income in 1988 remains good with regular healthy increases throughout the year stimulated by the 1986 tax law that will take effect in January 1988.

Consumer spending is expected to be low in the first half of 1988 mainly due to sluggish spending on durables--car sales will be low, but this has nothing to do with the stock market. The demand for new cars has already reached a saturation point so consumers will wait a while.

The second half of 1988 is optimistic with a resumption of the upward trend in purchases of durables, and continuous, strong demand for nondurables and services.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

--Personal Cons. Expend.-------Retail Sales-----*						
INDICATOR	Durables	Nondur- ables	Services	Total	Durables	Nondur- ables
Unit	bil.\$	bil.\$	bil.\$	bil.\$	bil.\$	bil.\$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	541.4	926.8
2*	409.0	982.1	1552.6	1515.6	560.1	955.5
3	432.6	988.1	1583.0	1560.2	579.9	980.3
4	420.8	994.7	1641.4	1580.0	598.7	981.3
YEAR	414.6	983.7	1576.2	1534.8	570.0	961.0
% change from '86	3.0	4.7	8.1	5.5	.3	8.2
1988:1	418.8	1009.5	1691.6	1595.2	617.0	978.2
2	425.8	1028.1	1704.9	1615.4	627.5	987.9
3	436.7	1044.1	1745.4	1659.3	656.8	1002.5
4	439.4	1051.2	1939.7	1680.5	670.1	1010.4
YEAR	430.2	1033.2	1770.4	1637.6	642.9	994.8
% change from '87	3.8	5.0	12.3	6.7	12.8	3.5
1989:1	436.2	1061.8	1964.1	1716.4	586.5	1129.9
2	439.4	1073.9	1972.7	1731.0	690.7	1040.3
3	447.8	1085.6	2126.1	1750.4	709.1	1041.3
4	451.5	1088.2	2138.4	1773.1	719.5	1053.6
YEAR	443.7	1077.4	2050.3	1742.7	676.5	1066.3
% change from '88	3.1	4.3	15.8	6.4	5.2	7.2

1.13 REAL GNP

See Table 1.13

Page 9

1987
FORECAST
DATAPercent Change
from
October 1987
Forecast

+	.38%	Pers. Cons. Expend.
+	.34%	GNP
+	.18%	Federal Govt. Purch.
+	.17%	Gross Private Dom. Inv.
+	.16%	State Local Purch.
-	.81%	Net Exports

THE U. S. DEPARTMENT OF
COMMERCE DATA FOR THIRD
QUARTER REAL GNP ARE
ENCOURAGING:

- * 3.8% annual rate of growth
- * Solid increase in consumer spending
- * Regular increment in Federal government purchases point to good prospects for the future.

OTHER GOOD NEWS:

- * September Survey of Purchasing Managers shows strong growth in orders and production.
- * Construction spending in September was \$406.2 billion, up from \$400.1 billion in August.
- * Steel production was 7.7 mil. short tons in September, up from the 7.5 mil. short tons in August.
- * Factory shipments hit \$204.8 million compared to the \$200.6 million in August.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----Gross National Product-----*					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	\$82 bil.	\$82 bil.	\$82 bil.	\$82 bil.	\$82 bil.	\$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3772.2	2475.9	671.8	-135.2	327.3	432.3
2*	3795.3	2487.5	673.7	-132.7	332.6	434.4
3	3831.2	2517.0	376.5	-137.9	338.3	437.3
4	3862.5	2551.3	669.1	-136.9	340.1	438.9
YEAR	3815.3	2507.9	597.8	-135.7	334.6	435.7
% change from '86	2.7	2.3	-8.6	-6.9	.6	3.2
1988:1	3883.0	2553.0	667.8	-122.0	341.4	442.8
2	3891.8	2547.4	672.9	-119.1	345.2	445.4
3	3928.3	2565.2	674.7	-109.4	348.9	448.9
4	4067.6	2699.3	680.4	-114.1	351.0	451.0
YEAR	3942.7	2591.2	674.0	-116.2	346.6	447.0
% change from '87	3.3	3.3	12.7	-14.4	3.6	2.6
1989:1	4071.1	2700.5	679.0	-115.0	353.2	453.4
2	4075.2	2694.1	681.2	-113.5	356.5	456.9
3	4084.3	2697.6	676.8	-110.2	359.8	460.3
4	4101.3	2705.6	680.9	-111.0	362.9	462.9
YEAR	4083.0	2707.4	679.5	-112.4	350.1	458.4
% change from '88	3.6	4.5	.8	-3.2	1.0	2.5

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
October 1987
Forecast

+	.04%	State Local Purch.
-	.01%	Consumer Price Index
-	.06%	Producer Price Index
-	.27%	Pers. Cons. Expend.
-	.35%	GNP
-	.92%	Federal Govt. Purch.

THE LOW EXCHANGE RATE FOR THE U.S. DOLLAR ON INTERNATIONAL MARKETS HAS HAD MINIMAL EFFECT ON PRICES AND FORECAST DATA INDICATE THAT THIS TREND WILL REMAIN FOR THE REST THIS YEAR AND THROUGHOUT 1988.

No dramatic increases in CPI or PPI are expected:

- * World prices of raw materials are expected to go up only marginally.
- * U. S. labor contracts (existing and expected in 1988) show average wage increases of approximately 2-3%.
- * Manufacturing segment is rebounding without any drastic price increases.
- * International prices of oil are expected to go up only only marginally--\$18 to \$20 per barrell range.
- * Capacity utilization expected to remain at around 80-81%, with no upward pressure on prices because high capacity utilization.
- * Employment forecast data indicate only moderate increases.

ADD ALL THIS UP AND WE HAVE MODERATE INCREASES IN BUSINESS AND PRICE LEVELS WITH NO INFLATION IN SIGHT.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates,
unless otherwise stated.

INDICATOR	*---Indexes---*		*-----Price deflators-----*			
	Cons. price index n.s.a.** 1967= 100	Prod. price index n.s.a.** 1967= 100	Gross Nat'l Prod. 1982= 100	Pers. cons. expend. 1982= 100	Fed. govt. purch. 1982= 100	State local purch. 1982= 100
Unit						
Year & Qtr.						
1986*	328.4	289.7	114.1	114.3	110.2	119.3
1987:1*	334.8	292.1	116.1	116.9	112.1	122.4
2*	338.8	296.0	117.1	118.3	114.1	123.9
3	342.3	298.2	117.8	119.3	113.7	125.5
4	345.5	303.0	118.8	119.8	115.0	127.2
YEAR	340.4	297.3	117.4	118.6	113.7	124.8
% change from '86	3.6	2.6	2.9	3.8	3.2	4.6
1988:1	348.8	307.3	120.6	122.2	116.1	128.2
2	352.0	312.0	122.0	124.0	117.8	129.3
3	355.4	317.6	123.1	125.8	119.0	131.9
4	358.8	320.0	124.6	127.1	120.7	132.8
YEAR	353.8	314.2	122.6	124.8	118.4	130.6
% change from '87	3.9	5.7	4.4	5.2	4.1	4.6
1989:1	362.7	323.9	125.9	128.2	121.5	133.3
2	366.3	329.4	127.0	129.4	123.0	135.2
3	370.6	334.0	131.9	135.7	125.1	137.6
4	376.8	337.6	132.5	135.9	127.0	140.0
YEAR	369.1	331.2	129.3	132.3	124.2	136.5
% change from '88	4.3	5.4	5.5	6.0	4.9	4.6

*Historical data.

**BLS: All Urban Consumers; PI: Industrial Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
October 1987
Forecast

+	.21%	State Local Purch.
+	.12%	Pers. Cons. Expend.
+	.01%	GNP
-	.46%	Gross Private Dom. Inv
-	.69%	Federal Govt. Expend.
-	1.50%	Net Exports

THE EXPECTED DECLINES IN THE NEGATIVE FOREIGN TRADE BALANCE WILL BE VERY SLOW DUE TO INCREASES IN OIL IMPORTS AND CONSUMER PRODUCTS.

GNP data and components point to healthy growth in 1987:3 and in the months ahead.

Data on all components of GNP look good, except the chronic malaise--net exports.

A good sign, however, is the increase in the negative number of net exports in 1987:3 over the increase recorded in 1987:2. The 1987:2 increment was \$6.2 billion, while 1987:3 was down to \$3.3 billion. That indicates a peaking of the deficit.

KEDI forecast data calls for gradual decrements in 1987:4 and afterward mainly due to increases in exports of manufactured products, notably electronics, fabricated metal products, machinery, rubber products, and chemical products.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----Gross National Product-----*					
	Total	Pers. cons. expend.	Gross pvt. dom. invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$
Year & Qtr.						
1986*	4235.0	2799.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.7	-112.2	366.9	529.3
2*	4445.1	2943.7	702.6	-118.4	379.6	537.6
3	4512.0	3003.1	696.5	-121.7	384.6	548.9
4	4588.6	3056.9	701.0	-118.6	391.1	558.3
YEAR	4481.1	2985.1	700.0	-117.7	380.6	543.5
% change from '86	5.8	6.6	4.3	11.6	3.9	7.9
1988:1	4682.9	3119.9	709.9	-110.9	396.4	567.7
2	4748.0	3158.8	714.3	-107.7	406.6	575.9
3	4835.7	3226.2	712.0	-109.8	415.2	592.1
4	5068.2	3430.3	720.7	-105.4	423.7	598.9
YEAR	4833.7	3233.8	714.2	-108.5	410.5	583.6
% change from '87	7.9	8.3	2.0	-7.9	7.9	7.4
1989:1	5125.5	3462.1	730.1	-100.2	429.1	604.4
2	5175.5	3486.0	733.4	-100.1	438.5	617.7
3	5387.2	3659.5	737.6	-93.4	450.1	633.4
4	5434.2	3678.1	736.3	-89.1	460.9	648.1
YEAR	5280.3	3581.9	734.4	-95.7	444.7	625.9
% change from '88	9.2	10.8	2.8	-11.8	8.3	7.2

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATAPercent Change
from
October 1987
Forecast

+	.81%	Non- Agri.
+	.79%	Total Employed
+	.70%	Civilian Labor Force
+	.02%	Popu- lation
	0.00%	Agri- culture
-	.26%	Unemploy- ment rate

EMPLOYMENT INCREASED BY 121,000 IN SEPTEMBER AND OCTOBER DATA POINTS TO A HEFTY GAIN OF MORE THAN HALF A MILLION NEW JOBS.

Developments in manufacturing are especially encouraging with strong increases in employment in oil extraction, machinery, fabricated metal products, electrical equipment, rubber and plastics, printing and publishing and related industries.

These increases are expected to continue for the balance of 1987 and 1988.

The employment outlook for 1988 remains bright with more than 1.8 million new jobs.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----Employment-----*					
	Popu- lation	Civil. labor force	Total	Agri- cult.	Non- agric.	Unem- ploy- ment rate %
Unit	mil.	mil.	mil.	mil.	mil.	
Year & Qtr.						
1986*	241.5	119.5	109.6	3.2	106.4	7.04
1987:1*	242.9	119.8	111.2	3.2	108.1	6.67
2*	243.8	121.5	113.9	3.1	110.8	6.23
3	245.0	122.4	115.2	3.1	112.1	5.92
4	246.9	123.5	116.2	3.1	113.1	5.94
YEAR	244.7	121.8	114.7	3.1	111.5	6.19
% change from '86	1.3	1.9	1.8	-2.3	4.8	-12.07
1988:1	247.9	124.8	117.4	3.1	114.3	5.90
2	249.6	125.7	118.3	3.1	115.2	5.87
3	250.4	126.5	119.2	3.1	116.1	5.80
4	251.5	127.3	120.0	3.1	116.9	5.73
YEAR	249.8	126.1	118.7	3.1	115.6	5.83
% change from '87	2.1	3.5	3.7	-.8	3.7	-5.90
1989:1	253.9	128.0	120.7	3.1	117.6	5.74
2	254.3	129.0	121.4	3.0	118.4	5.86
3	255.1	129.8	122.2	3.0	119.2	5.88
4	256.0	130.8	123.1	3.0	120.1	5.92
YEAR	254.8	129.4	121.8	3.1	118.7	5.85
% change from '88	2.0	2.6	2.6	0.0	2.7	.43

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATAPercent Change
from
October 1987
Forecast

+ 3.89%	1-Family Unit price New
+ .33%	Single Family Housing Starts
+ .32%	1-Family Unit price Existing
+ .14%	Permits Issued
- 2.09%	Mobile Home Shipments
- 3.40%	Multiple Family Housing Starts

HOUSING WILL CONTINUE TO DECLINE FOR THE REST OF THIS YEAR AND THE FIRST MONTHS OF 1988 DUE TO HIGH MORTGAGE RATES AND OVER SUPPLY.

This KEDI forecast of housing starts remains essentially unchanged compared to October.

There has been no impact, in general, from the October stock market fiasco.

It is possible that some super expensive housing starts may be negatively affected if their mortgages depend on collateralized stock, however such instances are not typical and too few to affect the housing trend.

There have been too many houses built, especially apartment houses and the demand is just not there.

Also, price levels for new housing are increasing much faster than the general price level increases throughout the country.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates,
unless otherwise stated.

INDICATOR	Single family housing starts Unit mil.	Multi- family housing starts mil.	Mobile home ship- ments mil.	Permits author- ized mil.	1-Fam. unit price new** tho. \$	1-Fam. unit price exist** tho. \$
Year & Qtr.						
1986*	1.179	.628	.244	1.750	112.2	98.3
1987:1*	1.256	.539	.234	1.684	121.1	103.9
2*	1.136	.476	.232	1.547	125.9	105.8
3	1.185	.425	.232	1.534	131.4	108.2
4	1.129	.453	.241	1.451	136.2	113.1
YEAR	1.176	.473	.235	1.554	128.7	107.8
% change from '86	-.2	-24.6	-3.8	-11.2	14.7	9.6
1988:1	1.126	.484	.226	1.511	139.2	113.9
2	1.219	.506	.241	1.592	141.5	115.9
3	1.259	.531	.252	1.639	144.3	118.7
4	1.208	.550	.244	1.595	147.2	122.2
YEAR	1.203	.518	.241	1.584	143.1	117.7
% change from '87	2.3	9.4	2.6	1.9	11.2	9.2
1989:1	1.130	.501	.236	1.538	150.1	124.6
2	1.218	.548	.240	1.648	151.6	127.3
3	1.269	.587	.282	1.760	152.4	130.1
4	1.218	.574	.274	1.969	153.0	133.9
YEAR	1.209	.552	.258	1.729	151.8	129.0
% change from '88	.5	6.7	7.1	9.1	6.1	9.6

*Historical data.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATAPercent Change
from
October 1987
Forecast

+ 1.43%	Total Light Truck Sales
+ .34%	Domestic Car Sales
+ .33%	Shipments
+ .24%	Total Car Sales
0.00%	Dealer Inventory
0.00%	Imported Car Sales

PRODUCTION AND SALES OF AUTOMOBILES WILL GO DOWN FOR THE NEXT 4-6 MONTHS BECAUSE DEMAND FOR NEW CARS HAS ALREADY BEEN LARGELY SATISFIED WITH THE NUMEROUS INCENTIVE PROGRAMS.

There are no signs that the October stock market plunge will affect car production or sales.

Look for an upward trend in car sales in the second quarter of 1988 and beyond.

Automakers are planning a preliminary 10% cut in 1988:1. The planned 1987:4 output is already 6.5% below 1986:4. Expect further cuts in 1987:4.

PLANNED PRODUCTION FOR 1988:1:
(in thousands)

	1988	1987	% change
GM	910.0	1024.0	- 11
Ford	448.0	534.2	- 16
Chrysler	299.0	324.3	- 7.8
Honda	92.0	87.4	+ 5.3
VW	18.0	20.8	- 13
Toyota	12.8	10.4	+ 23
Nissan	19.5	21.5	- 9.5
Mazda	15.0	0.0	
Total	1814.3	2022.6	

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates,
unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inven- tory n.s.a. **	Factory car ship- ments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.5	3.7
1987:1*	9.6	7.0	2.6	1.9	7.7	3.4
2*	9.5	6.8	2.7	1.9	7.5	3.5
3	10.1	7.0	3.1	1.8	7.6	3.6
4	9.7	6.7	2.9	1.7	7.3	3.4
YEAR	9.7	6.9	2.8	1.7	7.5	3.5
% change from '86	-15.4	-16.2	-11.7	13.3	.3	-6.1
1988:1	9.6	6.8	2.8	1.8	7.3	3.3
2	10.0	7.1	2.9	1.7	7.5	3.4
3	11.1	7.9	3.2	1.7	8.0	3.8
4	10.6	7.5	3.1	1.6	7.7	3.7
YEAR	10.3	7.3	3.0	1.6	7.6	3.5
% change from '87	6.2	-.0	6.2	-5.9	1.3	2.2
1989:1	10.0	7.0	3.0	1.7	7.3	3.2
2	10.4	7.4	3.0	1.8	7.5	3.5
3	10.9	7.8	3.1	1.7	7.8	3.7
4	10.5	7.4	3.1	1.7	7.7	3.5
YEAR	10.4	7.4	3.0	1.7	7.6	3.5
% change from '88	1.2	-.5	1.7	6.2	-.7	-2.1

*Historical data.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
October 1987
Forecast

+	.18%	State Surplus/ Deficit
-	.02%	Federal Income Tax
-	.21%	Corp. Profit Tax Accrued
-	1.28%	State Income Tax
-	1.97%	State Local Corp. Tax Accrued
-	4.33%	Federal Surplus/ Deficit

IT IS ANTICIPATED THAT THE AGREEMENT ON THE FEDERAL DEFICIT CUT FOR FISCAL YEAR 1988 WILL BE ACHIEVED AND APPROVED BY CONGRESS.

Such an agreement, however, seems to be more politically important than economic. The \$25-30 bil. cut is too small to have much of an effect on the U.S. economy.

What is much more important, however, is the \$60 bil. decline in the Federal deficit achieved throughout the last fiscal year which has barely been mentioned by the media.

Measured in calendar years, the Federal deficit is expected to DECLINE from the \$220 bil. record of 1986 as follows:

1987 to \$152 bil.
1988 to \$134 bil.
1989 to \$109 bil.
1990 to \$80 bil.
1991 to \$60 bil.

The \$60 bil. deficit in 1991 will actually mean that the Government sector of the economy will be in balance since it will be matched by approximately \$65 bil. of surpluses of State and Local Governments. Further reductions in the Federal deficit may result in serious deflationary effects in the economy.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL-----*			*---STATE AND LOCAL----		
	Income taxes	Corp. profits	Surplus /deficit tax accru.	Income taxes	Corp. profits	Surplus /deficit tax accru.
Unit	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$
Year & Qtr.						
1986*	363.0	83.7	-220.0	149.8	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.6	107.9	-139.2	162.3	26.4	50.6
3	404.7	111.8	-146.8	161.5	26.7	51.1
4	419.8	113.0	-150.0	163.9	27.4	52.1
YEAR	405.4	108.9	-151.6	160.6	26.4	48.7
% change from '86	11.7	30.1	-31.1	7.2	23.8	-14.3
1988:1	424.3	115.0	-141.0	168.5	28.1	53.2
2	429.8	120.1	-137.0	170.9	29.3	54.7
3	436.6	121.7	-130.1	176.0	30.2	56.9
4	448.6	124.2	-128.4	181.2	32.0	58.8
YEAR	434.8	120.2	-134.1	174.2	29.9	55.9
% change from '87	7.3	10.4	-11.5	8.5	13.4	14.8
1989:1	452.1	125.0	-118.1	183.4	32.1	59.8
2	457.2	127.1	-110.2	185.3	33.7	60.7
3	466.4	129.9	-106.3	187.7	35.3	61.7
4	471.6	132.7	-102.2	192.0	37.1	63.0
YEAR	461.8	128.7	-109.2	187.1	34.5	61.3
% change from '88	6.2	7.0	-18.6	7.4	15.6	9.7

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATAPercent Change
from
October 1987
Forecast

+	.25%	Personal Disp. Income
+	.15%	Personal Income
+	.06%	Average Weekly Earnings
-	.46%	Comp. of Employees
-	2.43%	Corp. After Tax Earnings
-	2.83%	Personal Savings

CORPORATE AFTER-TAX EARNINGS
IN 1987:3 HAVE INCREASED BY
34% WHEN COMPARED TO 1987:2,
according to a recent Wall
Street Journal report.

The increase has been widespread:
automakers, oil, building
materials, chemical products,
forest products, nonferrous metals,
steel, industrial and farm
equipment, thrifts, heavy
construction, airlines, media,
entertainment, rubber and
plastic, and virtually all other
industries have recorded significant
gains.

Forecast data show that such
favorable trends will continue.

No declines are expected for the
rest of this year and afterward.

All indications point to a good year
in 1988 for the corporate sector.

KEDI forecast calls for 10% increase
in corporate after-tax profits in
1987 over 1986 and near 20% increase
in 1988 over 1987.

Data on Personal Income and components
are also optimistic with regular,
good gains forecasted into 1988.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$	\$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3708.6	3130.6	2623.8	134.9	93.2	403.1
3	3759.7	3193.5	2660.0	144.1	94.6	405.0
4	3831.8	3268.3	2740.7	149.2	98.2	406.2
YEAR	3740.5	3179.6	2653.6	139.3	106.1	401.4
% change from '86	5.8	5.2	5.9	9.9	-18.8	5.1
1988:1	3916.3	3323.5	2786.7	160.1	101.5	409.1
2	3971.1	3370.4	2823.1	162.5	108.6	414.9
3	4052.8	3440.2	2900.1	166.2	110.4	419.9
4	4277.4	3647.6	2943.6	169.2	112.1	421.5
YEAR	4054.4	3445.5	2863.4	164.5	108.2	416.4
% change from '87	8.4	8.4	7.9	18.1	1.9	3.7
1989:1	4319.1	3683.6	2982.4	177.8	115.1	423.1
2	4353.9	3711.4	2982.7	182.0	118.3	425.2
3	4538.8	3884.7	3053.1	187.1	117.4	427.0
4	4569.5	3905.9	3089.3	190.4	118.5	428.3
YEAR	4445.3	3796.4	3026.9	184.3	117.3	425.9
% change from '88	9.6	10.2	5.7	12.1	8.5	2.3

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATAPercent Change
from
October 1987
Forecast

+	.37%	Consumer Install. Credit
+	.12%	Consumer & Demand Deposits
-	.02%	Comm. & Indust. Loans at Banks
-	.15%	Time Deposits
-	.55%	Mortg. at S & L Assns.
-	1.46%	Large Denom. Time Deposits

THE INCREMENT IN M1 IS EXPECTED TO BE \$30 BILLION ABOVE 1987 IN 1988. THAT POINTS TO A RELAXED FEDERAL RESERVE POLICY.

The Federal Reserve will provide adequate funds, as it did in past years, to the stock market and to finance the U. S. trade deficits.

Forecast data on money supply show that 1987:4 monetary aggregate M1 will be approximately \$10 bil. above 1987:3.

It is expected that the Federal Reserve will continue its relaxed stance throughout 1988, and the tight money in 1987:2 will only be a temporary, not repeating, episode.

Forecast data on other monetary and credit aggregates point to regular developments--somewhat slower in the first half of 1988, and accelerating in the second half--when compared to the 1987 averages.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI- CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$	bil. \$
Year & Qtr.						
1986*	673.2	2650.8	577.8	517.6	447.1	553.1
1987:1*	732.3	2821.7	579.5	520.4	449.3	547.4
2*	750.5	2840.3	585.3	526.1	459.8	550.8
3	750.1	2860.8	602.4	531.8	467.0	554.1
4	758.9	2900.3	612.8	541.2	474.1	558.1
YEAR	748.0	2855.8	612.8	541.2	474.1	558.1
% change from '86	11.1	7.7	6.1	5.3	6.0	.9
1988:1	771.2	2950.7	618.6	546.3	480.6	560.1
2	779.8	3031.2	626.9	550.8	486.9	564.3
3	792.4	3080.3	634.3	556.2	494.3	573.1
4	808.4	3126.8	653.6	560.0	500.8	578.2
YEAR	788.0	3047.2	653.6	560.0	500.8	578.2
% change from '87	5.3	6.7	6.7	3.5	5.6	3.6
1989:1	812.3	3180.5	663.2	571.4	506.5	582.1
2	821.3	3217.7	670.1	510.3	513.4	585.6
3	831.5	3288.5	684.9	573.5	519.6	590.0
4	842.4	3329.5	700.6	587.5	536.5	607.1
YEAR	826.9	3254.1	700.6	587.5	536.5	607.1
% change from '88	4.9	6.8	7.2	4.9	7.1	5.0

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES,
YIELDS, AND
SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
October 1987
Forecast

+ 2.33%	20 Year Govt. Bond Yield
+ .11%	S & P's 500 Avg.
+ .02%	Conv. Mortg. Rate
- .31%	Treas. Bills 3 mo. Yield
- 1.10%	Aaa Corp. Bond Rate
- 1.98%	Prime Rate

FORECAST DATA DO NOT CALL
FOR ANY REPEATS OF THE
OCTOBER CRASH OF THE STOCK
MARKET.

It is anticipated that the
Federal Reserve policy will
remain at the easy-credit
side. No tightening of
credit is expected.

KEDI maintains its position
that further relaxation will
take place in the Spring
and Summer of 1988. Increases
in interest rates are
not expected before the end
of 1988 and into 1989.

It is further anticipated that
key countries such as Japan,
England, and Germany will
pursue the policy of lowering
interest rates during the first
half of 1988 and will keep
interest rates low in the
second half of the year.

Markets for Federal and
corporate bonds will remain
in good shape throughout
1988.

The market for state and
local bonds is expected to
improve in the second half
of 1988.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield Unit	Prime rate %	Conv. mortg rate %	Aaa corp. bond rate %	30 yr. Govt. bonds yield %	S & P's 500 Avg 1941-43 = 10
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3	6.57	8.58	10.41	9.32	9.51	321.50
4	6.79	9.11	10.59	9.29	9.29	271.86
YEAR % change from '86	6.14 2.8	8.31 -.2	9.76 -.6	9.04 .2	8.80 12.8	291.48 23.3
1988:1	6.74	9.05	10.72	9.46	9.13	278.52
2	6.67	9.02	10.21	9.58	8.85	285.68
3	6.43	8.89	9.95	9.38	8.74	292.89
4	6.20	8.76	9.85	9.20	8.36	295.74
YEAR % change from '87	6.51 6.1	8.93 7.5	10.18 4.3	9.41 4.1	8.77 -.3	288.21 -1.1
1989:1	6.05	8.45	9.85	9.14	8.25	293.40
2	5.93	8.67	9.74	9.12	8.20	295.36
3	6.12	8.71	9.61	9.25	8.27	306.91
4	6.29	8.86	9.42	9.38	8.51	309.21
YEAR % change from '88	6.10 -6.3	8.67 -2.9	9.65 -5.2	9.22 -1.9	8.31 -5.3	301.22 4.5

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Personal Consumption Expenditures (bil. \$) has been selected for comparison. Actual numbers for 1985 and 1986 are in the Survey of Current Business, August 1987 issue, Table 1.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data have been obtained from data in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Consumption Expenditures, bil. \$)
Actual figure: 2799.8

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy (%)
Manufacturer Hanover Trust Co., p. 45	12/85	2703.5	-3.4
UCLA Business Forecasting Project, p. 46	12/85	2672.7	-4.5
The Equitable Life Assurance Society of the United States, p. 48	4/12/85	2663.2	-4.9
Research Seminar in Quantitative Economics, Univ. of Michigan, p. 49	12/12/85	2674.5	-4.5
The Journal of Business Forecasting, p. 51	1/86	2974.9	+6.3
Metropolitan Life Insurance, p. 55	1/1/86	2721.8	-2.8
Standard & Poor's Corporation, p. 58	1/16/86	2650.3	-5.3
Money Market Services, Inc., p. 64	1/27/86	2761.1	-1.4
Georgia State University, p. 66	2/86	2735.9	-2.3
KEDI, Inc., p. 67	2/1/86	2767.6	-1.2

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin**, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production**, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 \$	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 \$	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36